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PUBLIC UTILITY COMMISSION  
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REVIEW OF THE ERCOT SCARCITY  
PRICING MECHANISM

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PUBLIC UTILITY COMMISSION  
OF TEXAS

**CALPINE CORPORATION REPLY COMMENTS**

Calpine Corporation (“Calpine”) appreciates the opportunity to provide reply comments regarding recommended changes to the ERCOT scarcity pricing mechanism. Calpine continues to support a critical and deliberate review of the appropriate long term investment signals in the ERCOT market. Near term reforms to the low system-wide offer cap (“LCAP”) are warranted; however, a thorough review of all aspects of this market including the incentives and outcomes in the ERCOT energy-only market should be examined for congruence with policy makers desired level of reliability. Establishing the correct market signals are essential to providing the desired level of investment to ensure long term reliability outcomes necessary to support Texas.

Calpine continues to believe that the LCAP amendment suggested in our initial comments provides the least disruption to the existing market rules while also addressing instances when the LCAP could be greater than the HCAP during periods with extraordinary natural gas fuel prices. As a reminder, Calpine supports an amendment to the current rule that would make the LCAP the lesser of either: the greater of \$2,000 or 50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour, or the HCAP.

Calpine also supports the principle supported by Texas Industrial Energy Consumers (“TIEC”) and NRG Energy (“NRG”) that no generator should be financially harmed when being ordered to generate. We support the use of ERCOT make-whole procedures to allow recovery of

costs in excess of any cap in place at the time. Any revision to the rule should also include this concept.

If the Commission chooses to adopt an “event based” circuit breaker as advocated by TIEC and South Texas Electric Cooperative (“STEC”) the criteria for starting and ending the associated LCAP must be clearly defined. Calpine recommends tying the LCAP to a specific operating condition like EEA3 and that the duration of that event also be long enough to allow peaking generators an opportunity to sufficiently recover fixed costs in times of scarcity.

We appreciate this opportunity to present our views on this very important matter.

Respectfully submitted,

By: /s/ Diana Woodman Hammett

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